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Central Intelligence Bulletin

State Department review completed

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3 October 1973

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Approved For Release 2004/01/05 : CIA-RDP79T00975A025300140001-5

Approved For Release 2004/01/05 : CIA-RDP79T00975A025300140001-5

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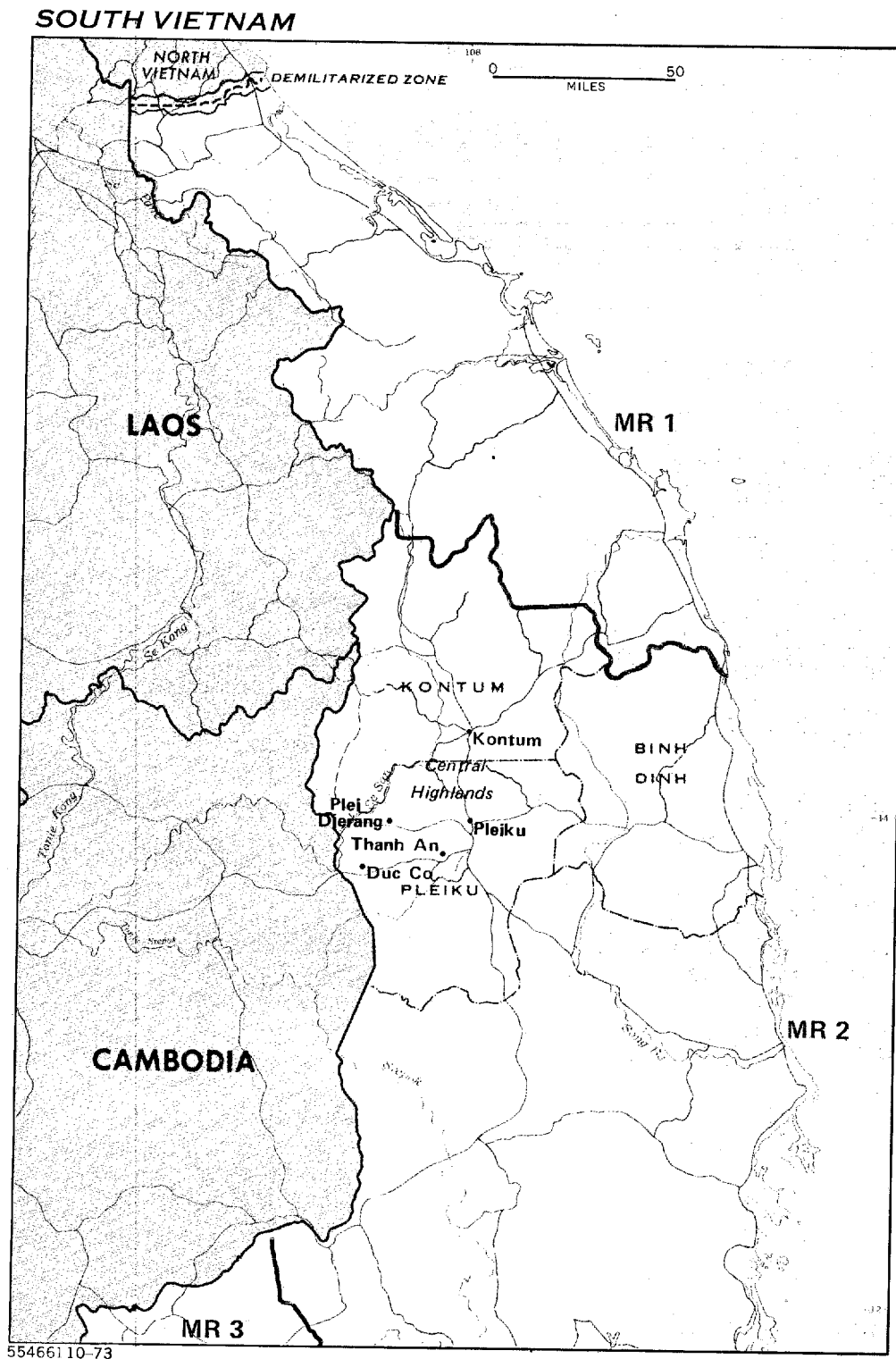
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SOUTH VIETNAM: Fighting in South Vietnam's central highlands may continue at a relatively intense pace during the next several weeks as a result of moves by both sides.

Following the recent loss of the Plei Djerang Ranger camp in western Pleiku Province--the largest government outpost to fall to the Communists since the cease-fire last January--the Military Region 2 Commander, Major General Toan, believes himself under pressure from Saigon to retaliate. Toan has decided to target the Communist road system, logistic facilities, and elements of the North Vietnamese 320th Division in the Duc Co area of the province. He also will try to re-establish a government presence in Plei Djerang.

Toan has established a forward headquarters of the South Vietnamese 22nd Division, normally based in coastal Binh Dinh Province, at Thanh An District Town, southwest of Pleiku City. Two regiments from the division are nearby, and a third from the highlands-based 23rd Division is in reserve. Various tank, Ranger, and Vietnamese Air Force elements are in position to play supporting roles. Some air strikes already have been conducted against North Vietnamese troops reacting to these deployments, and Toan reportedly believes that additional enemy moves will provide ample justification for his counteroffensive in the Duc Co area. Toan believes his operations in Pleiku will not escalate to the point of having to call for reinforcements that could jeopardize security in adjacent Kontum Province or the populous coastal province of Binh Dinh.

Despite allegations by Saigon spokesmen, including President Thieu, that the attack on Plei Djerang signals a coming enemy offensive, there is little to suggest that the Communists plan a major offensive in the highlands at this time. Both North Vietnamese divisions there are understrength and in no shape to

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sustain large-scale fighting. General Toan has speculated that the Communists took the Ranger camp to facilitate their road construction activities, and other sources believe the Communists wish to divert attention from the coastal region of Military Region 2 where a contest for the rice harvest may be in the offing.

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NATO: US Senate amendments dealing with force levels in Europe have placed the allies under new pressure to come up with multilateral ways to reduce the costs the US incurs from stationing troops in Europe.

Ambassador Rumsfeld thinks that the allies are now convinced that the administration cannot rely on Senate support for maintaining current troop levels in Europe until a force reduction agreement has been achieved between NATO and the Warsaw Pact. According to a senior West German Foreign Ministry official, the Senate actions produced "considerable shock" in Bonn. He remarked that the "extraordinarily arbitrary character" of the actions has led West German officials to question whether it will be possible to resist pressure for unilateral troop cuts. The Senate votes reportedly have produced similar nervousness in the Bundestag.

NATO Secretary General Luns has emphasized that the Senate action lends new immediacy to the alliance's "burden-sharing" efforts, and there have been some positive signs in the recent deliberations of the study group dealing with the problem. There is wide support for separating the US military deficit from other balance-of-payments figures so that it might be treated on a priority basis. Also, the UK recently has not been pressing its claim to offset Britain's own balance-of-payments losses.

Nevertheless, NATO still has far to go before coming to grips with this problem. The West Germans show no sign of being more willing to participate in a multilateral scheme to help reduce the US military balance-of-payments burden. They have been trying hard to prove that Bonn is already carrying its fair share in bilateral offset arrangements. While the burden-sharing study group will probably succeed in sending its initial report to the North Atlantic Council in mid-October, it will be largely concerned with defining precisely the amount of balance-of-payments damage the US suffers. There has been little discussion of possible solutions so far.

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EUROPEAN COMMUNITIES: French Finance Minister Giscard d'Estaing, in a sharp policy shift, is attempting to persuade the other eight EC members to agree to a community-wide wage-price freeze by the end of this month

The EC does not have a community-wide anti-inflation program at this time, primarily because the French rejected two earlier EC Commission proposals for joint action. These proposals were designed to reduce the cost of imported goods through selective tariff reductions, but Paris viewed this as a bad tactical move in view of the coming multilateral trade negotiations. In their national efforts, the British have a program of wage-price controls, the French are relying on a progressive tightening of monetary policy, and the Italians selectively froze prices last July but not wages. Only the Germans have a concerted program aimed at reducing demand in all sectors through fiscal and monetary measures.

Paris, fearing the effects of inflation on the European joint float, may hope to use unified EC action as a rationale for enacting a wage-price freeze in France. Most of the other EC members, however, probably will not want to participate in such a restrictive program. Moreover, the Germans, who have found it politically feasible to enact a stringent program of their own, have repeatedly pointed to the ineffectiveness of wage-price controls. Although the other EC members almost certainly share French fears that inflation will cause continuing problems for the European joint float and damage their export capabilities, Paris probably will not succeed in getting EC acceptance of the plan.

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UK-ICELAND: London's eleventh-hour decision to withdraw its warships from the disputed waters around Iceland--and thus avoid a break in diplomatic relations--is the first positive move in the stalemated cod war since negotiations broke off last May.

Reykjavik had vowed to sever relations at midnight last night if the ships remained. London announced yesterday, however, that the "protective vessels"--three frigates and three sea-going tugs--were being withdrawn on the assumption that Iceland would not harass British trawlers in the area. The warships are to remain just outside Iceland's declared 50-mile fishing limit, ready to re-enter the area if Icelandic patrol craft resume harassment of British fishing boats. In the meantime, the British have invited Iceland to resume negotiations in London in mid-October. The Icelandic Government responded by announcing that it would not break relations, and accepted the offer to negotiate.

Following the personal intervention of NATO Secretary General Luns, the British waived their previous demand that Iceland agree formally not to harass the trawlers if the warships were withdrawn. The scheduled break would have coincided with the arrival of Icelandic Foreign Minister Agustsson in Washington for negotiations on the US-manned NATO base at Keflavik. While prospects for retention of the base in its present form are still in jeopardy, a relaxation of tensions in the cod war will reduce anti-NATO sentiment in Iceland and create a better atmosphere for compromise on the base issue.

The truce at sea, however, may be of short duration. Icelandic leftists are certain to keep on attacking the government if it permits the British to continue fishing inside the 50-mile limit. It will be difficult for the shaky leadership to resist such pressure for very long and, unless the British accept Icelandic fishing restrictions, the incidents at sea are likely to resume.

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CHILE: Security considerations remain predominant in the junta's policy decisions. Its economic plans, while reflecting a basic commitment to the idea of equitable distribution of the nation's wealth, also are designed to counter leftist appeals with the prospect of concrete social and economic progress. In addition, the junta continues the harsh measures it deems necessary to rid the country of Marxist influence.

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Concern that the left has not been totally neutralized probably explains the junta's apparent willingness to alienate some support at home and suffer a bad press abroad. When the junta concluded that the university rectors were not willing to undertake a thorough ideological housecleaning, for example, it decided to appoint military "delegates" to do the job regardless of the disillusionment this would cause in the important Christian Democratic Party. Communist Party chief Luis Corvalan is on trial for treason before a military court and the death penalty may be handed down regardless of its effect on international opinion.

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EAST GERMANY: East German party leader Erich Honecker continued the process of gradually consolidating his control over the party yesterday as several new members were elected to the Politburo and Secretariat.

Following the recent example of the Soviet party, the East Germans elected their defense minister, General Heinz Hoffmann, to the Politburo. The party Central Committee also elected two district party leaders, Werner Felfe from Halle and Konrad Naumann from East Berlin, the editor of the party's main press organ, Neues Deutschland, and two other functionaries to be candidate members of the Politburo.

Elected to the important Secretariat were another district party leader, Werner Krolikowski, and the head of the Central Committee's department for party organs. The district party leaders in particular owe their political positions and influence to Honecker and they, as well as other members of the Politburo and Secretariat elected since Honecker became party leader, can be expected to support him fully.

Guenter Mittag, a major architect of East German economic planning, was removed as a member of the Secretariat, but was appointed first deputy premier. His appointment to that government job may indicate that Premier Willi Stoph will be elected today by the parliament to succeed the late Walter Ulbricht as Chairman of the Council of State. Stoph heads the list of possible candidates for that honorific post, and it has been anticipated that if he did gain it First Deputy Premier Sindermann would succeed him as premier.

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IRAN: The government yesterday announced the arrest of 12 persons on charges of plotting to kidnap or kill the Shah and other members of the Imperial family. A cache of firearms and explosives also was seized in the round-up of what government officials claim is the entire ring.

The conspirators, who are reportedly members of the outlawed Tudeh (Communist) Party, are said to have confessed to a plot that included kidnaping the Shah, Empress Farah, the crown prince, and possibly others; seizing an airliner to flee the country; and demanding the release of political prisoners in exchange for the royal hostages. According to the government, the group also had considered an assassination attempt on the Empress at a public ceremony later this month.

Members of the ring included newspaper employees, film-makers, and a member of a well-known mercantile family, as well as a man who served over two years in prison for his part in an attempt on the Shah's life in 1965. If the charges are true, these are not typical Iranian terrorists. Members of the middle-class elite have rarely engaged in anti-regime activity. Those responsible for the rash of bombings and other violent incidents which have occurred in recent years--such as the assassination of a US Army officer in June--have been young, fanatic "Islamic-Marxists."

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SOUTH KOREA: The nation's economy achieved a real annual growth rate of 19.2 percent in the first half of this year. Seoul expects the growth rate for the year to be 14-15 percent, or double the 7-percent increase registered last year. Industrial production in the first six months of 1973 was 30 percent above the 1972 level, and construction activity doubled.

Foreign trade also is expanding rapidly with overseas sales expected to increase by at least half to over \$2.5 billion. Imports are likely to grow almost as fast. Although sales to the US are continuing their rapid growth, Korean purchases from the US also are accelerating. As a result, the \$170-million trade surplus with the US in the first half of 1972 has shifted to a small deficit during the first half of this year. Seoul is trying to expand purchases from the US, especially as a substitute for Japanese imports. A purchasing mission is now in the US, the first such mission sent abroad.

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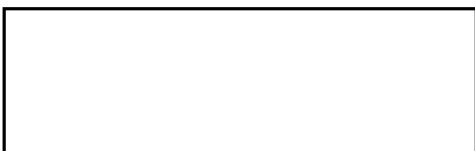
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